

# Internal Auditing

NEWSLETTER

July 2011

School Employer Workshops

Nebraska Public Employees Retirement System (NPERS)

## Internal Audit Process

*If you are selected for an NPERS audit, be aware of the internal audit process and requirements. The following is an example of the information that will be required for our audit:*

**NPERS will send to you a School Employer Questionnaire along with a letter requesting that the questionnaire be completed and returned with the following information:**

■ A list identifying *all current* employees (including substitutes) to include:

- Social Security number
- Demographic information
- Title of employment position
- Date of birth
- Date of hire
- Employment position
- School Plan enrollment status

■ For all employees who did NOT contribute during the 2010-2011 school year, you will need to provide documentation identifying how many hours the employee worked each month, from *July 2010 through June 2011*. Documentation may include:

1. An "hours" report that specifically identifies the month and how many actual hours the employee worked that month (e.g., for Bus Drivers if your report represents units, units must signify actual hours worked and not the total amount of "routes") **OR**
2. Copies of employee timecards that identify how many hours the employee worked during the payroll period (timecards should include the total hour's amount).
3. If the non-contributing employee worked as a *substitute*, we must receive a copy of your "substitute log" (and not timecards) identifying when the employee worked.
4. If the employee did not work at all during the months in question, you must indicate that zero hours were worked. *All months, July through June must be accounted for.*

\* Please note information that is hand written or provided in a spreadsheet without supporting documentation is not acceptable documentation for auditing purposes.

**For contributing employees selected for payroll testing you must provide the following:**

1. A copy of their October 2010; December 2010 and March 2011 Payroll Register Detail.
2. Copy of their employment contract or agreement to include annual salary or hourly wage amount.
3. If the employee is an hourly employee, you will need to provide copies of their timecards that are applicable to the wages that are being paid for those three payroll periods being tested.
4. If the employee is not an hourly employee, you will need to explain how you determined the amount of hours that were reported to NPERS for those three reporting periods (be specific to include how many work days your school district worked for each of those three reporting periods).
5. For those selected employees, you will need to review their October 2010; December 2010 and March 2011 payroll detail to determine if additional documentation is required. *If gross wages paid include compensation in addition to their monthly wage; you must provide documentation to support the compensation that was paid. All gross wages must be accounted for.*

■ For the October 2010; December 2010 and March 2011 payroll periods (reporting periods), please provide a copy of the report that runs at the end of your payroll register (for most employers). It identifies an itemization/summary of total gross wages subject to retirement to include the employee/employer retirement contributions for the reporting period.

■ A copy of your school districts 2010-2011 Master or Negotiated Agreement to include salary scale.

■ Employees are selected from the 7% Exemption Report: Please provide documentation to support the exemption that is noted.

■ A copy of your October 2010 Payroll Register Detail (all employees).

Once our audit is completed, you will be sent a final audit letter to which **your response is required within 20 working days from the date of the letter.**

### Internal Audit Staff...

If you have any questions, need clarification, or would like to be selected for an internal audit, please contact a member of the Internal Audit Team.

*Internal Auditor-Supervisor*

**Teresa Zulauf**

402-471-7745

teresa.zulauf@nebraska.gov

*Internal Auditor-Schools*

**Christine Ford**

402-471-8763

christi.ford@nebraska.gov

*Internal Auditor-Counties*

**Missy Maguire**

402-471-7075

missy.maguire@nebraska.gov

### Our Purpose...

The School Employees Retirement System is governed by Neb. Rev. Stat. §§79-901 - 79-977.03, in addition to the Nebraska Administrative Code Title 303 Chapter 24. In administering the state's retirement systems, the Public Employees Retirement Board is directed by Neb. Rev. Stat. §84-1503(1) (g) to "adopt and implement procedures in order to verify the accuracy of such information."

Regarding the School Plan, Neb. Rev. Stat. §79-906(1) provides that "The director shall, from time to time, carry out testing procedures pursuant to §84-1512 to verify the accuracy of such information." The NPERS **Internal Audit Team** is then responsible for performing the testing. Quite simply, we are here to assist you in complying with State Statutes that govern the School Plan.

**This newsletter** is intended to identify areas often found in non-compliance with State Statutes and provide information on how to be "audit point free." We will also inform you of our internal audit process and what NPERS will require when you are selected for an audit.

# Common Audit Issues

## Documentation you provide with our request for information when you are selected for an audit:

**PLEASE** pay attention to the information that is requested/required to complete our audit. On several audits we are not receiving ALL of the information that has been requested (or we are not receiving the correct information). This is causing huge delays as we have to contact many employers several times in attempt to receive the information that is needed. It is essential that all of the information is provided with your first response.

## The total amount of hours reported for contract and timecard employees:

Creditable service includes working days, sick days, vacation days, holidays, and any other leave days for which the employee is paid regular wages as part of the employee's agreement with the employer. Creditable service does not include pay for unused sick or unused vacation leave, lump-sum payments to the employee upon termination or retirement in lieu of accrued benefits for such days. Eligibility and vesting credit, nor service credit years for which member contributions are withdrawn and not repaid

## Hours reported for contract (not timecard employees) can be determined one of two ways:

- Take the number of work days in the month, times the number of hours worked in a day (to include extra-duty hours) and report the total hours worked each month OR:
- Take the number of work days for the school year as identified in the employee employment agreement, times the number of hours worked in a day (to include extra duty hours) and divide that by the number of months the employee is contracted to work each school year. The number of work days needs to be identified in either the Negotiated Agreement or employee Employment Agreement.

## Hours reported for timecard employees:

- Employer needs to report the total of hours worked supported by hours reflected on the employee timecard(s) (in addition to any contracted service if applicable). Each timecard should also identify the total hours worked. For auditing purposes, it is not efficient for us to have to determine/add up the hours the employee worked each day in attempting to determine whether or not the correct amount of hours were reported for a reporting period. Timecard(s) should identify the employee first and last name and should be legible.

## Employee date of hire information:

Current date of hire (or employment start date) in NPRIS is only accurate if the employee also began contributing to retirement at that time. For auditing purposes, NPERS is therefore requesting that the employee date of hire information is on your monthly Employee Contribution Report (every month).

## Documentation to support employee eligibility and ineligibility for the retirement plan:

You must be able to support why an employee is enrolled in the retirement plan as well as why an employee is not enrolled in the retirement plan. Whether or not you enroll an employee in the retirement plan, you must be able to provide sufficient documentation to support your decision for timecard employees as well as contract employees. Retirement eligibility is based on hours worked. Therefore, you must be able to provide documentation to support how many hours the employee works for each month during the school year, or a substitute log if the employee is a substitute.

## The total amount of employee gross wages used in computing employee retirement contributions:

Compensation for determining retirement contributions is to include gross wages or salaries payable to the member for personal services performed during the plan year and includes overtime, holiday pay and member contributions to or for an IRS Section 125, 403(b) and 457 Plans. Sick and vacation time are included as long as the employee actually used it. In addition, if a member is paid a stipend due to attending a workshop, it is considered a personal service performed and should be included in the calculation of gross wages in calculating employee retirement contributions.

If a regular teacher also works as a substitute, or works extra duties, all gross wages earned for personal services performed would be subject to retirement contributions which would include substitute and extra duty wages. *A good way to check this is to review your payroll detail and look for any employee who has wages or salary with retirement in addition to wages or salary without retirement (applies to gross wages earned for personal services only and does not apply to any benefits the employee may also receive).*

**Example:** A regular teacher or employee who is employed with one school employer and is eligible to participate in the School Plan and is also employed either part-time or as a substitute with another school employer. The employer should also withhold retirement

contributions on the part-time or substitute wages. **Always check with each employee at the time the employee accepts employment with your district.** If the employee is employed with another school employer and is participating in the retirement Plan and will continue to do so, you should enroll the employee in the School Plan.

**Example:** A similar situation would be an employee who works part-time with one or two school employers. The *total* amount of hours worked with all employers would determine employee eligibility for retirement purposes.

Compensation for determining retirement contributions should not include amounts paid to the member for unused sick leave or unused vacation leave; insurance payments converted into cash; reimbursement for expenses; fringe benefits; and bonuses for services not actually performed including early retirement inducements, cash awards and severance pay.

**Ineligible Comp:** If a school district pays for or specifically increases a member's salary to compensate for the Long Term Disability premium or insurance benefits, it is considered a fringe benefit and the amount should not be included in the member's total gross wage amount in calculating employee retirement contributions. Even if the LTD premium is then deducted from employee gross wages, it is still considered a fringe benefit if the district specifically pays the employee the amount of the LTD premium and should not be included with total gross wages in calculating employee retirement contributions.

**Ineligible Comp:** If a school district offers a higher hourly wage only for an employee who elects family health insurance, the difference between what the employee would have received as an hourly rate and the increased rate if insurance was taken out would not be subject to employee retirement contributions.

**Ineligible Comp:** If an employee elects not to receive insurance benefits and is instead paid the cost of those benefits, that pay would be considered ineligible compensation in determining retirement contributions.

## Employer demographic and employment information:

The employer is responsible for ensuring the member demographic and employment information is updated in a timely manner. Incorrect demographic information prevents NPERS from communicating effectively with all members of the School Plan and could financially affect members receiving a monthly benefit who have later returned to employment with a school employer.

Incorrect member employment information has a direct effect when determining employee retirement benefit estimate amounts and could delay the retirement process. In addition, incorrect member employment information will have a negative effect when computing actuarial data.